

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7330**

**BILL NUMBER:** HB 1376

**NOTE PREPARED:** Feb 17, 2003

**BILL AMENDED:**

**SUBJECT:** Property tax exemption for aircraft.

**FIRST AUTHOR:** Rep. GiaQuinta

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X

X

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides a deduction for certain aircraft and related parts and equipment owned by a business entity with an Indiana corporate headquarters.

**Effective Date:** January 1, 2003 (retroactive).

**Explanation of State Expenditures:** (Revised) The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Tax shifts from business personal property to other property cause the state's expense for regular PTRC and Homestead Credits to increase. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Therefore, any increase in PTRC or Homestead Credit payments would ultimately impact the state General Fund. The increased state expense under this bill is estimated at \$200,000 to \$240,000 in FY 2003 (partial year) and \$625,000 to \$760,000 in FY 2004 and years following.

**Explanation of State Revenues:** (Revised) The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal is estimated at about \$1,900 - \$2,300 in FY 2003 and \$3,900 - \$4,700 in FY 2004 and years following.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) Effective with property taxes paid in 2003, this bill would

provide a 100% property tax deduction for:

- 1) Common carrier passenger aircraft with a seating capacity of 90 passengers or less;
- 2) Common carrier or private cargo aircraft;
- 3) Spare parts for deductible aircraft; and
- 4) Maintenance equipment that is used on the deductible aircraft.

To qualify for the deduction, the owner must have its corporate headquarters in Indiana or be a subsidiary of another corporation with its headquarters in Indiana.

According to the Department of Local Government Finance, approximately \$11 M in aircraft assessed value was reported for property taxes payable in 2000 (the latest year for which data is available) by Indiana headquartered corporations. While this value may include aircraft that might not qualify for the deduction, it does not include the value of spare parts or maintenance & repair equipment. New tax return information regarding 2002 assessments received from an impacted taxpayer suggests that the readily identifiable AV that would qualify for the exemption under this bill is now in the neighborhood of \$117 M.

Since other Indiana headquartered corporations that are not identified as airline companies might own maintenance & repair equipment, spare parts, and even some aircraft, the total AV that would be exempted under this bill could exceed the \$117 M that is identified above. It is estimated that this bill would result in exemptions totaling about \$117 M - \$142 M in assessed value. This analysis assumes that the exempt property's assessed value would remain constant. The exempt property under this bill is primarily located in Allen and Marion Counties.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the exemptions to all taxpayers in the form of an increased tax rate.

In Allen County, an \$11 M reduction in AV would cause an estimated \$0.0052 (0.2%) increase in the local gross tax rate and cause a gross tax shift of about \$230,000 in CY 2003 and \$235,000 in CY 2004 and later years from the taxpayers receiving the exemption to all taxpayers. The net tax shift (after PTRC and homestead credits) is estimated at about \$190,000 per year. Local civil units and school corporations would lose about \$30,000 per year in cumulative fund revenue.

In Marion County, a \$106 M - \$131 M reduction in AV would cause an estimated \$0.0150 (0.7%) - \$0.0186 (0.8%) increase in the local gross tax rate and cause a gross tax shift of about \$2.9 M - \$3.6 M in CY 2003 and \$3.2 M - \$4.0 M in CY 2004 and later years from the taxpayers receiving the exemption to all taxpayers. The net tax shift (after PTRC and homestead credits) is estimated at about \$2.3 M - \$2.9 M in CY 2003 and about \$2.6 M - \$3.2 M in CY 2004 and later years. Local civil units and school corporations would lose about \$380,000 - \$470,000 in cumulative fund revenue in CY 2003 and \$420,000 - \$520,000 in CY 2004 and later years.

**The total gross tax shift for all counties under this proposal is estimated at \$3.1 M - \$3.8 M in CY 2003 and \$3.4 M - \$4.2 M in CY 2004 and later years.**

**The total net tax shift (after PTRC and homestead credits) for all counties under this proposal is estimated at \$2.5 M - \$3.1 M in CY 2003 and \$2.8 M - \$3.4 M in CY 2004 and later years.**

**The total cumulative fund revenue loss is estimated at about \$410,000 - \$500,000 in CY 2003 and \$450,000 - \$550,000 in CY 2004. Total local revenues, other than cumulative funds, would remain**

**unchanged.**

If the 2003 tax rates in an affected county are certified prior to the passage of this bill, then the AV reduction would cause a reduction in local revenues instead of a shift in CY 2003. The AV reduction would cause a shift in CY 2004 and later years. Tax rates are normally certified by February 15<sup>th</sup> each year. However, the current reassessment has caused a delay in the certification of assessed values for taxes paid in 2003 in many counties and tax rate certification by the Department of Local Government Finance depends on this valuation.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** County auditors; Local governmental units; School corporations.

**Information Sources:** Kurt Barrow, Assessment Director, Department of Local Government Finance (317) 232-3777; Local Government Database.

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